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SACRAMENTO COUNTY ADMINISTRATION AND FINANCE AGENCY ANALYSIS

OF

JARVIS/GANN INITIATIVE

MARCH 1978

*Real prop. tax { - Ca
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GENERAL

- Adds Tax Limit Provisions to California Constitution
- Designated Proposition 13 for June 6, 1978 Primary Ballot
- Short But Not Simple:

Section

Provision

1	1% Limit + Exception
2	Base Year + Changes
3	2/3 Legislative Vote on Other State Taxes
4	2/3 Qualified Elector Vote on Other Local Taxes
5	Effective Dates
6	Severability

SPECIFIC SECTIONS

Here are the specific sections and language contained in the Jarvis/Gann Initiative (underlined emphasis is added). Following each section are our comments on some assumptions, concerns, or questions.

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SECTION 1.

(a) THE MAXIMUM AMOUNT OF ANY AD VALOREM TAX ON REAL PROPERTY SHALL NOT EXCEED ONE PERCENT (1%) OF THE FULL CASH VALUE OF SUCH PROPERTY. THE ONE PERCENT (1%) TAX TO BE COLLECTED BY THE COUNTIES AND APPORTIONED ACCORDING TO LAW TO THE DISTRICTS WITHIN THE COUNTIES.

-- Places limit but gives no express authority to impose the tax.

-- Silent on State subvention for homeowners' property tax relief exemptions.

-- There is no law relating to apportionment.

-- Assumed that all districts will share 1%.

-- Assumed that districts include cities and counties.

(b) THE LIMITATION PROVIDED FOR IN SUBDIVISION (a) SHALL NOT APPLY TO AD VALOREM TAXES OR SPECIAL ASSESSMENTS TO PAY THE INTEREST AND REDEMPTION CHARGES ON ANY INDEBTEDNESS APPROVED BY THE VOTERS PRIOR TO THE TIME THIS SECTION BECOMES EFFECTIVE.

-- Exception for prior voter-approved indebtedness.

-- Future voter-approved indebtedness would have to be within 1% limit.

SECTION 2.

- (a) THE FULL CASH VALUE MEANS THE COUNTY ASSESSORS VALUATION OF REAL PROPERTY AS SHOWN ON THE 1975-76 TAX BILL UNDER "FULL CASH VALUE", OR THEREAFTER, THE APPRAISED VALUE OF REAL PROPERTY WHEN PURCHASED, NEWLY CONSTRUCTED, OR A CHANGE IN OWNERSHIP HAS OCCURRED AFTER THE 1975 ASSESSMENT. ALL REAL PROPERTY NOT ALREADY ASSESSED UP TO THE 1975-76 TAX LEVELS MAY BE REASSESSED TO REFLECT THAT VALUATION.

-- Silent on State Board of Equalization assessments.

-- Provides for changes after 1975:

(1) Lacks definitions, particularly meaning of "newly constructed".

(2) Does not provide for effective dates of tax liens.

-- Changes in values raises serious questions about inequitable taxation.

-- Meaning of last sentence not clear but seems to provide for reappraisals.

- (b) THE FAIR MARKET VALUE BASE MAY REFLECT FROM YEAR TO YEAR THE INFLATIONARY RATE NOT TO EXCEED TWO PERCENT (2%) FOR ANY GIVEN YEAR OR REDUCTION AS SHOWN IN THE CONSUMER PRICE INDEX OR COMPARABLE DATA FOR THE AREA UNDER TAXING JURISDICTION.

-- Adjustment appears not to be mandatory.

-- Consumer Price Index not an indicator of fair market value.

-- Overassessments possible because of inflation:

(1) Damaged or destroyed properties.

(2) Properties with depressed values.

-- Effective date for inflationary rate not provided.

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SECTION 3.

FROM AND AFTER THE EFFECTIVE DATE OF THIS ARTICLE, ANY CHANGES IN STATE TAXES ENACTED FOR THE PURPOSE OF INCREASING REVENUES COLLECTED PURSUANT THERETO WHETHER BY INCREASED RATES OR CHANGES IN METHODS OF COMPUTATION MUST BE IMPOSED BY AN ACT PASSED BY NOT LESS THAN TWO-THIRDS OF ALL MEMBERS ELECTED TO EACH OF THE TWO HOUSES OF THE LEGISLATURE, EXCEPT THAT NO NEW AD VALOREM TAXES ON REAL PROPERTY, OR SALES OR TRANSACTION TAXES ON THE SALES OF REAL PROPERTY MAY BE IMPOSED.

-- Involves total State taxing structure, not just property taxes.

-- 2/3 legislative vote is contrary to other constitutional provisions:

(1) Majority vote for bank, corporation and insurance taxes

(Article 13, Sections 27 and 28)

(2) Majority vote for State property tax up to 25% of budget

(Article 13, Section 22)

-- Prohibits new real property taxes regardless of legislative vote.

SECTION 4.

CITIES, COUNTIES AND SPECIAL DISTRICTS, BY A TWO-THIRDS VOTE OF THE QUALIFIED ELECTORS OF SUCH DISTRICT, MAY IMPOSE SPECIAL TAXES ON SUCH DISTRICT, EXCEPT AD VALOREM TAXES ON REAL PROPERTY OR A TRANSACTION TAX OR SALES TAX ON THE SALE OF REAL PROPERTY WITHIN SUCH CITY, COUNTY OR SPECIAL DISTRICT.

- Involves total local taxing structure, not just property taxes.
- Schools assumed to be included as special districts.
- 2/3 vote of "qualified electors" is required for imposing special taxes--"qualified electors" not defined, but can mean all those eligible to vote, not just those who have voted.
- "Special taxes" not defined, but appears to mean any taxes except those relating to real property.
- Could mean that vote requirement applies to existing special taxes.
- Taxes relating to real property appears to be prohibited:
 - (1) Regardless of any vote.
 - (2) Could mean absolute prohibition in the absence of any express authority in the Initiative to impose.

SECTION 5.

THIS ARTICLE SHALL TAKE EFFECT FOR THE TAX YEAR BEGINNING JULY 1 FOLLOWING
THE PASSAGE OF THIS AMENDMENT, EXCEPT SECTION 3 WHICH SHALL BECOME
EFFECTIVE UPON THE PASSAGE OF THIS ARTICLE.

- Extremely limited time may be provided for implementation.
- "Passage" not defined but can mean date when vote is certified
by Secretary of State.

SECTION 6.

IF ANY SECTION, PART, CLAUSE, OR PHRASE HEREOF IS FOR ANY REASON HELD TO BE
INVALID OR UNCONSTITUTIONAL, THE REMAINING SECTIONS SHALL NOT BE AFFECTED
BUT WILL REMAIN IN FULL FORCE AND EFFECT.

- Provides for implementation of sections not held to be invalid
or unconstitutional.
- Anticipates legal challenges.

POTENTIAL IMPACT

- Initiative provides not only for property tax reductions, but also for restrictions and possible reductions in all other taxes without addressing such issues as legally mandated costs, services, or alternate means of financing.
- Cannot predict impact accurately because of vagueness and ambiguous language in the Initiative, as well as the lack of a distribution formula.
- Estimated impact at this time for county, cities, and other districts of Sacramento is an overall reduction of about 2/3 in property taxes in 1978-79:
 - (1) Impact will be severe and will vary among county, cities, schools and other districts depending on their particular financial circumstances.
 - (2) County reduction in property tax financing may exceed \$50 million.
 - (3) Property tax reduction will also have negative impact on Revenue Sharing, interest earnings, unsecured property taxes, and other property-tax-related revenues.
- County solutions are limited because of mandates and restrictions on the use of certain revenues.
- Major reductions in services and staff would be necessary in areas where the county may have options or limited discretion.
- Erosion of home rule, homeowner, business, social, economic and related problems.

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CURRENT STATUS

- Proposition 13 (Jarvis/Gann) will be on June primary ballot.
- As an alternative, Proposition 8 (relates to SB 1-Behr) will be on June 6, 1978 primary ballot.
- County is continuing to analyze. However, regardless of either proposition, our assumption is that there will be some form of revenue and cost limits placed on state and local governments.
- Further, Sacramento County is also preparing its 1978-79 budget under a Board of Supervisors' policy to:
 - (1) Minimize real property tax burdens by maintaining practical limits on its use as a means of financing; and to
 - (2) Limit real property tax levies for non-mandated costs to a CPI percentage change, which is provided by the State Department of Finance annually.

CAVEAT

- Additions or amendments to State Constitution cannot be taken lightly-- get all the facts and consider overall impact to community, as well as to individuals and families, before making final decisions.